

# SUBCOMMITTEE No. 1

## EDUCATION

### **K-12**

Department of Education.....	1-1
California State Library.....	1-13
Commission on Teacher Credentialing .....	1-14

### **Higher Education**

Overarching Higher Education Issues.....	1-18
University of California.....	1-21
Hastings College of Law .....	1-24
California State University .....	1-25
California Community Colleges.....	1-27
Student Aid Commission.....	1-28
California Institute for Regenerative Medicine (CIRM).....	1-30

# K-12 EDUCATION

## 6110 Department of Education

Funding for California's public elementary and secondary education system is administered predominantly through the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education. The public elementary and secondary education system educates approximately 5.9 million students enrolled largely in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of nearly 1,000 school districts, 58 county offices of education, and more than 9,300 schools. Approximately 307,800 teachers are employed in public schools statewide.

### Total K-12 Funding (All Funds)

The 2007-08 Governor's Budget proposes \$68.6 billion in total funding for K-12 education, which reflects an increase of \$1.8 billion (2.7 percent) above 2006-07 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, federal, other) totals \$11,584 in 2007-08, an increase of \$344 above the \$11,240 per-pupil amount in 2006-07.

<b>Table 1</b>					
<b>K-12* Summary, All Funds</b>	<b>Actual</b>	<b>Revised</b>	<b>Proposed</b>		<b>Percent</b>
<i>(dollars in millions)</i>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>Amount</b>	<b>Change</b>
<b>K-12 Proposition 98:</b>					
State General Fund	\$34,582	\$36,658	\$36,851	\$ 193	0.5
Local Property Taxes	11,959	12,353	13,595	1,242	10.1
Subtotal, Proposition 98	(\$46,541)	(\$49,011)	(\$50,446)	(\$1,435)**	(2.9)
<b>Other K-12 Funds:</b>					
State General Fund (Non-98):					
Teacher Retirement	\$999	\$876	\$966	\$ 91	10.4
Bond Debt Service	1,681	1,857	2,201	345	18.6
Other Programs	63	643	1,078	435	67.7
State Lottery Fund	1,036	1,012	1,012	0	0
Federal Funds	6,931	7,113	6,568	-545	-7.7
Local Funds					
Debt Service	1,660	1,660	1,660	--	--
Other	4,584	4,603	4,623	20	0.4
Subtotal, Other Funds	(\$16,954)	(\$17,763)	(\$18,109)	(\$346)	(1.9)
<b>Total , All Funds</b>	<b>\$63,495</b>	<b>\$66,774</b>	<b>\$68,555</b>	<b>-\$1,781</b>	<b>2.7</b>
K-12 ADA	5,964,108	5,940,989	5,917,948	-23,041	-0.39
<b>Per Pupil Funding, All Funds</b>	<b>\$10,646</b>	<b>\$11,240*</b>	<b>\$11,584*</b>	<b>\$344</b>	<b>3.1</b>

\* Reflects the funding shift of \$627 million in funding for Home-to-School Transportation from Proposition 98 to the Public Transportation Account per the Governor's proposal. Without the shift, the K-12 Proposition 98 increase would total \$2.1 billion (4.2 percent).

\*\* Includes one-time funds for prior year Proposition 98 settle-up.

As reflected in Table 1, the \$68.6 billion in total funds for K-12 education can be summarized as follows: \$42.1 billion (61.4 percent) in state funds (General Fund and State Lottery Fund); \$19.9 billion (29 percent) in local funds (property taxes and other local revenues); and \$6.6 billion (9.6 percent) in federal funds.

The budget reflects a decrease of \$545 million (7.7 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, once it is passed by Congress and signed by the President.

### Proposition 98

Total Proposition 98 funding for K-14 education in 2007-08 is proposed at \$56.8 billion, an increase of \$1.8 billion, or 3.3 percent, over the revised 2006-07 budget. (See Table 2) The Administration states that this level of funding meets the Proposition 98 minimum funding guarantee in 2007-08, as currently estimated by the Department of Finance.

**Table 2**

**K-14 Proposition 98**

**Appropriations Summary**

(dollars in thousands)

	2005-06	2006-07	Proposed 2007-08	\$ Change	% Change
<b><i>Distribution of Prop 98 Funds</i></b>					
Department of Education	\$46,485,854	\$48,945,279	\$50,385,924*	\$1,440,645	2.9
Community Colleges	5,472,403	5,897,062	6,274,142	377,080	6.4
Corrections & Rehabilitation**	45,780	52,964	54,250	1,286	2.4
State Special Schools	42,567	44,533	44,253	-280	-0.6
Commission on Teacher Credentialing	31,814	49,881	39,881	-10,000	-20.0
Dept. of Developmental Services	10,217	9,121	8,677	-444	-4.9
Dept. of Mental Health	18,400	13,400	18,400	5,000	37.3
School Facilities Aid Program	7,841	5,766	5,015	-771	-13.3
Am. Indian Education Centers	4,698	4,343	4,518	175	4.0
<b>Total</b>	<b>\$52,119,574</b>	<b>\$55,022,369</b>	<b>\$56,835,060</b>	<b>\$1,812,691</b>	<b>3.3</b>

***Prop 98 Fund Source***

State General Fund	\$38,358,017	\$40,812,023	\$41,189,857	\$377,834	0.9
Local Property Taxes	13,761,557	14,210,346	15,645,203	1,434,857	10.1
<b>Total</b>	<b>\$52,119,574</b>	<b>\$55,022,369</b>	<b>\$56,835,060</b>	<b>\$1,812,691</b>	<b>3.3</b>

K-12 Enrollment-ADA***	5,964,108	5,940,989	5,917,948	-23,041	-0.39
------------------------	-----------	-----------	-----------	---------	-------

<u>K-12 Funding per ADA****</u>	<u>\$7,803</u>	<u>\$8,293</u>	<u>\$8,569</u>	<u>\$276</u>	<u>3.3</u>
---------------------------------	----------------	----------------	----------------	--------------	------------

\* Includes one-time funds for prior year Proposition 98 settle-up.

\*\* Division of Juvenile Justice. (Formerly California Youth Authority.)

\*\*\* Average Daily Attendance

\*\*\*\* Includes one-time funds for prior year Proposition 98 settle-up. Without these one-time funds, K-12 per ADA funding totals would equal \$8,250 in 2006-07 and \$8,524 in 2007-08.

The Governor proposes to shift \$627 million in funding for the Home-to-School Transportation program – administered by the California Department of Education – from the Proposition 98 General Fund to the Public Transportation Account. In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by \$627 million.

Of the \$56.8 billion in Proposition 98 spending for K-14 education in 2007-08, \$50.4 billion is appropriated to the Department of Education for K-12 schools; \$6.3 billion for Community Colleges; and \$175 million for all other state education agencies.

General Funds comprise \$41.2 billion (72.5 percent) of total Proposition 98 funding; property taxes comprise the remaining \$15.6 billion (27.5 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to decrease by 23,041 in 2007-08, a decrease of 0.39 percent over the revised 2006-07 budget. Average per-pupil Proposition 98 funding is estimated to be \$8,569 in 2007-08, an increase of \$276 (3.3 percent) above the revised 2006-07 level of \$8,293.

### **Governor's Strategic Growth Plan for Education**

Last January, the Governor proposed a 20-year Strategic Growth Plan to rebuild California's infrastructure system as a part of the 2006-07 budget proposals. This comprehensive plan covered K-12 and higher education, as well as transportation, air quality, water, public safety, courts and other public service infrastructures. The Governor and Legislature subsequently agreed on a comprehensive general obligation bond package, contained in four separate ballot measures that were approved by statewide voters in November 2006. One of these four measures – Proposition 1D – provides \$10.4 billion in new facility bonds for K-12 schools and higher education systems.

The Governor's proposes additional investments in California's infrastructure as a part of the 2007-08 budget proposals in order to further implement his Strategic Growth Plan. Overall, the Governor proposes \$29.4 billion in new bonds in 2008 and 2010. Of this amount, \$23.1 billion or nearly 79 percent is set-aside for expanding or improving education facilities -- \$11.6 billion for K-12 education and \$11.5 billion for higher education. The remaining portion of these bond proposals includes \$4 billion for water safety, \$2 billion for judiciary, and \$300 million for other public service infrastructure.

The summary below lays out the next phase of the Governor's Strategic Growth Plan 2008-2016 for K-12 Education and Higher Education. Of the \$11.6 billion in new K-12 facility bonds proposed by the Governor in 2008 and 2010, \$3.7 billion is provided for modernization; \$3.9 billion for new construction; \$2 billion for charter schools and \$2 billion for career technical education. These funds are estimated by the Administration to provide 22,100 new classrooms and 40,300 classroom renovations.

**Table 3**  
**Summary of Governor's Strategic Growth Plan for Education**  
**General Obligation Bond Proposals**  
**2006-2016**  
*(in billions)*

	Approved 2006*	Proposed 2008	Proposed 2010	Proposed Total
<b>K-12 Education</b>				
Modernization**	\$3.3	\$1.539	\$2.13	\$
New Construction**	1.9	2.931	1.0	
Overcrowding Relief	1.0			
Charter Schools	0.5	1.0	1.0	
Career-Technical Education	0.5	1.0	1.0	
High Performance Schools***	0.1			
Joint Use Facilities	.03			
<b>Total K-12 Education</b>	<b>\$7.3</b>	<b>\$6.5</b>	<b>\$5.1</b>	<b>\$11.6</b>
<b>Higher Education</b>				
UC/Hastings****	\$0.9	\$1.725	\$1.035	
CSU	0.7	1.725	1.035	
CCC	1.5	3.75	2.25	
<b>Total Higher Education</b>	<b>\$3.1</b>	<b>\$7.2</b>	<b>\$4.320</b>	<b>\$11.5</b>
<b>Total Bond Proposal</b>	<b>\$10.4</b>	<b>\$13.7</b>	<b>\$9.4</b>	<b>\$23.1</b>

\* Proposition 1D was approved by statewide voters in November 2006.

\*\* Of new construction and modernization funds, up to \$200 million is available for small high schools and \$200 million is available for seismic safety projects.

\*\*\* Projects that meet performance criteria for energy, water, natural lighting, air quality, use of recycled materials, etc.

\*\*\*\* Requires \$200 million to be used for capital improvements to expand/enhance medical education programs with an emphasis on telemedicine. Includes \$100 million in lease revenue bonds.

The Governor proposes significant changes to the current school facility bond program as a part of the 2008 and 2010 bond proposals for K-12 schools. Specifically, the Governor proposes to revise the current state-local cost sharing ratio for *new construction* funds from the current 50 percent state/50 percent local to 40 percent state/60 percent local. The Governor also proposes to change the state-local ratio for *modernization* funds from the current 60 percent state/40 percent local to 40 percent state/60 percent local. These changes increase the local share of costs and reduce the state's share.

The Governor would maintain current 50 percent state/50 percent local cost sharing ratios for new charter school funding and career-technical education funding proposed in the 2008 and 2010 bond acts.

The Governor proposes another policy change to the school bond program as a part of the 2008 and 2010 bond act proposals that would limit state funding for site acquisition for new construction projects to the acreage that meets 150 percent of the Department of Education's pupil density standard.

The Governor also proposes \$100 million in facility bond funds for the State Special Schools – Schools for the Deaf (Freemont & Riverside) and School for the Blind (Freemont) – as a part of the \$300 million bond proposal in 2008 for Other Public Infrastructure.

## Highlights

**Cost-of-Living Adjustments (COLAs) Fully Funded.** The budget provides **\$1.9 billion** to fully fund COLAs for K-12 revenue limit and categorical programs in 2007-08. The Administration estimates a 4.04 percent COLA for K-12 programs, which provides a \$1.4 billion increase for revenue limits and \$516 million increase for categorical programs. The 4.04 percent COLA is proposed for all programs that require a COLA pursuant to state statute or that traditionally receive a COLA. Funding for COLAs provide discretionary funds to K-12 schools.

**Growth Adjustments – Decrease in Student Attendance Budgeted.** The Governor's Budget assumes an actual decline of K-12 students in 2007-08. Specifically, the budget estimates K-12 average daily attendance (ADA) of 5,918,000 in 2007-08, which reflects a decrease of 23,000 ADA from the revised 2006-07 budget. This ADA decline translates into a negative growth adjustment of 0.39 percent for education programs and generates net savings of approximately **\$87 million** in 2007-08. The 0.39 percent reduction for revenue limits totals \$125 million. Categorical programs receive positive growth of \$38 million because the 0.39 percent reduction does not apply to all categorical programs. As proposed by the Governor, categorical programs clearly tied to ADA rates receive negative growth adjustments, such as special education. The Administration proposes to protect other categorical programs, such as Economic Impact Aid and Foster Youth Services, from attendance losses by budgeting growth at zero rather than -0.39 percent. Other categorical programs with non-ADA based growth formulas receive positive growth funding if student counts are increasing.

**Funding Shift – School Transportation.** The Governor proposes to shift **\$627 million** in funding for the Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA). In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by \$627 million to reflect the savings in state General Funds. The Governor shifts annual expenditures for the Home-to-School Transportation (regular budget item and deferral item) to the PTA. The Governor includes a 4.40 percent COLA for the Home-to-School Transportation program in 2007-08.

**Proposition 98 Increase for Child Care.** The Governor proposes to increase Proposition 98 funding for CalWORKS child care by **\$269 million**. The effect is to reduce \$269 million in federal TANF funds for CalWORKS child care programs and instead fund all Stage 2 and Stage 3 child care programs with General Fund Proposition 98 dollars, rather than with the mix of funding sources in effect in past years. The effect is to "free up" \$269 million in TANF funds for other CalWORKS purposes and offset General Fund costs in order to create savings for the state.

**Other Ongoing Program Increases:** The Governor proposes very few other program increases or adjustments in ongoing Proposition 98 funds beyond COLA and child care in 2007-08. These proposals include:

- **Ongoing Funding for Adult English Language Instruction.** Provides **\$50 million** in ongoing funding for the Community-Based English Tutoring (CBET) program authorized by Chapter 632, Statutes of 2006 (SB 368/Escutia). Chapter 632 requires school districts, as a condition of funding, to provide free or subsidized programs of adult English language instruction to parents and other community members who pledge to provide personal English language tutoring to English learners. Chapter 632 makes funding for the CBET program subject to an annual appropriation in the Budget Act. The Governor's proposal essentially continues \$50 million in annual funding for the adult English language instruction and tutoring implemented pursuant to Proposition 227, as approved by voters in June 1998. Proposition 227 required the state to encourage family members and others to provide personal English language tutoring to children with limited English proficiency. Proposition 227 appropriated \$50 million annually -- over a ten year period ending in 2007 -- for this purpose. Chapter 632 continues the community-based adult English language instruction and tutoring program created by Proposition 227, with some modifications intended to improve the effectiveness of the program.
- **Charter Schools Block Grant:** Provides a **\$24.5 million** increase in funding for the charter school categorical block grant to complete the phase-in of funding reforms enacted in 2005-06. The 2006-07 budget increased funding by \$36 million to implement the first of two increases required by the new statute for the charter school categorical block grant pursuant to Chapter 359, Statutes of 2005. This augmentation reflects a \$500 increase in the categorical block grant level.
- **K-12 High Speed Network.** The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition the Governor authorizes \$4.6 million in E-Rate and California Teleconnet Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to \$15.6 million in 2007-08. The 2006-07 budget provided the same level of funding, but included budget bill language and budget control language the Governor does not propose to continue in 2007-08. This language establishes expenditure standards and reporting requirements recommended by the Bureau of State Audits.
- **Mental Health:** Provides an additional **\$5 million** to the Department of Mental Health for expansion of the Early Mental Health Initiative program. This program provides three-year mental health grants to school sites for early identification and intervention services for students in grades K-3.

**One-Time Funding Proposals: Proposition 98 Reversion Funds.** The Governor proposes appropriating **\$185.9 million** in one-time funds in 2007-08 from the Proposition 98 Reversion Account for a variety of programs.

- **\$100 million** for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006.
- **\$43.9 million** for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. Of this total, \$20 million is available for 2006-07 costs and \$23.9 million is

available for 2007-08. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.

- **\$25.7 million** for CalWORKS Stage 2 child care adjustments.
- **\$8.8 million** for the Teacher Credentialing Block Grant to fully fund teachers participating in the Beginning Teacher Support and Assessment system in the current year.
- **\$5 million** to local education agencies for purchase of State Board approved study materials for students who have failed the California High School Exit Exam (CAHSEE). LEAs would be eligible for funding of up to \$20 for 11<sup>th</sup> and 12<sup>th</sup> grade students who have failed one or both parts of the CAHSEE. CDE shall select a vendor or vendors to develop and produce study guide workbooks. Study materials must assist students in mastering standards necessary for passing CAHSEE and must include both a computer based component to individualize student learning and professional development for teachers.
- **\$1.5 million** for a new Compact for Success pilot program between K-12 local education agencies and California State University campuses. The purpose of the program is to increase college-going and college-completion rates for participating students. Funds would be used for six regional partnerships that would develop and implement counseling, planning, mentoring and other related services. Private funds would be required to match state funds for the regional partnerships.
- **\$1 million** for a county office of education to contract with an outside agency to develop and implement an Internet-based information management system statewide and provide training on use of the system. The new system would provide a data management tool for schools that are subject -- or likely to be subject -- to state or federal intervention.

**One-Time Funding Proposals – Current Year Proposition 98 Settle-Up Funds.** The Governor proposes appropriating **\$72.5 million** in one-time General Funds for Proposition 98 settle-up in 2006-07. These proposals for K-12 Education include:

- **School Enrichment Block Grants.** The Governor proposes **\$50 million** in one-time funding to continue the School Enrichment Block Grant program for low performing schools. This proposal would provide third year funding for low performing schools that may be used for teacher recruitment and retention; building effective leadership; and assuring a safe and healthy school environment. This block grant program was first funded with up to \$49.5 million in one-time funds in 2005-06. Another \$50 million in one-time funds was provided in 2006-07. Funding is proposed at the rate of \$50 per pupil and can be expended for the general purposes of improving the school environment and culture, and may include: assuring a safe and clean environment, providing support services for students and teachers, providing differential compensation for highly qualified teachers and highly skilled principals, small group instruction, and teacher and administration collaboration time.
- **Teacher Recruitment.** The Governor proposes **\$10 million** in one-time Proposition 98 funds to create the EnCorps Teachers Program. This new program is intended to add 2,000 experienced retirees to the teaching corps. Funds for this new program are

budgeted to the Commission on Teacher Credentialing (CTC). (See following section for the CTC budget.)

- **School Business Officers.** The Governor proposes **\$2.5 million** to fully fund eligible candidates for the School Business Officers Training Program.

**Student Data – California Longitudinal Pupil Achievement Data System (CALPADS).** The Governor proposes **\$2.5 million** from state and federal sources to support district implementation of the CALPADS.

**Teacher Data -** The Governor proposes **\$1.1 million** in federal Title II funds to support the development of the California Longitudinal Teacher Integrated Data Education System (CalTIDES).

**Other One-Time Funds – Quality Education Improvement Act.** The Governor’s Budget Summary indicates that 2007-08 budget includes **\$300 million** to commence implementation of the Quality Education Improvement Act (QEIA). This amount provides **\$268 million** for K-12 schools and **\$32 million** for community colleges in 2007-08. As established by Chapter 751, Statutes of 2006 (SB 1133/Torlakson), the QEIA appropriates \$2.9 billion in Proposition 98 settle-up payments for K-12 schools and community colleges over a seven year period, beginning in 2007-08. For K-12 schools, the QEIA will provide increased student funding over seven years to a portion of schools ranked in the lowest two deciles of the Academic Performance Index. Schools selected to participate will receive \$500 annually per K-3 student, \$900 annually per grade 4-8 students, and \$1,000 annually per grade 9-12 student. Funding is intended to improve student achievement with an emphasis on requirements for reducing class sizes, improving teacher qualifications, and reducing pupil-counselor ratios in high schools.

**Career Technical Education:** The Governor proposes **\$32 million** for the Community Colleges to expand the Career Technical Education programs. Funding for this increase comes from community college funds available in 2007-08, pursuant to Chapter 751, Statutes of 2006. The Career Technical Education program links K-12 and community college programs to develop better pathways to the workforce and higher education. The Governor proposes to continue an additional \$20 million in funds provided to the Community Colleges in the current year for this purpose. (See Community Colleges section for additional detail.)

**State Bond Facilities Expenditures.** The Governor’s budget proposes to expend \$6.9 billion in state general obligation bond funds for school facilities including \$2.8 billion in 2006-07 and \$3.8 billion in 2007-08. More than \$3 billion of these funds come from the 2006 school facilities bond (Proposition 1D), approved by statewide last November. Remaining funds are available from earlier state bond acts. The Governor’s budget estimates debt service payments for the K-12 general obligation bond of \$1.9 billion in 2006-07 and \$2.2 billion in 2007-08. These expenses are paid for from the state General Fund (Non-98).

**New Ongoing Programs Continued:** The Governor proposes to continue funding for several new block grant programs created in the 2006-07 budget, including:

- **Grades 7-12 Counseling:** Provides funding of **\$208 million** to schools to continue funding for the Supplemental School Counseling program. The 2006-07 budget provided \$200 million for this new program to increase counseling services for students in grades 7-12. Priority for counseling services is given to students who are at-risk of not passing or who have not passed the California High School Exit Exam (CAHSEE) as well as students who are at-risk of not graduating high school due to insufficient credits.
- **K-12 Arts and Music Block Grant.** The Governor provides \$109.2 million to school districts, county offices of education and charter schools to continue funding for the Arts and Music Block for students in grades K-12. The 2006-07 provided \$105 million in Music and Arts Block Grants for this program. Funding may be used for a variety of purposes including hiring additional staff, purchasing new materials, books, supplies and equipment; and providing staff development.
- **K-8 Physical Education Block Grant.** The Governor provides **\$41.6 million** in Physical Education Teacher Incentive Grants to K-8 school districts and charter schools to support the hiring of additional credentialed physical education teachers. Grantees will be randomly selected and be equitably distributed based upon school type, size and geographic location. The 2006-07 budget provided \$40 million for this new program.

**Other Budget Initiatives:** The Governor proposes two initiatives for K-12 schools that are not funded in the budget, including:

- **School Meal Reimbursement Increase.** The Governor proposes to provide an unspecified increase in the reimbursement rate for school meal, breakfasts and lunches, in 2007-08. The Governor does not provide any funding in the budget for this purpose. The Governor proposed a \$37.8 million increase to the meal rate in 2006-07. This level of funding provided funding of 21 cents per meal – an increase of approximately seven cents per meal. This increase was approved by the Legislature in 2006-07, but ultimately vetoed by the Governor because new funding was not tied to improvements in the quality of school meals. Subsequent legislation to appropriate funding for school meals was also vetoed by the Governor. The Governor now proposes to consider meal rate increases in the budget year and tie any increases to legislation to eliminate unhealthy fats and fried foods from school meals.
- **Student Data - School Accountability Report Card (SARC).** The Administration proposes to work with the Legislature, Superintendent of Public Instruction, and other interested parties to redesign the School Accountability Report Card (SARC). These changes are sought to improve the accessibility and quality of school data for parents, the public, educators and policymakers.

**Education Mandate Payments Deferred.** The Governor proposes to continue the practice of deferring payments for education mandate claims in 2007-08. This practice arose in recent years as a means to achieve short-term budget savings. The annual cost of education mandates is estimated at approximately \$150 million for K-12 schools.

**Prior-Year Mandate Payments.** The Governor also proposes no additional funding to pay for outstanding prior year education mandate claims. The LAO estimates unpaid prior year claims will total \$273 million for K-12 schools by the end of 2006-07, including annual mandates payments deferred by the 2006-07 budget. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

**Backfill Funding for Rural Schools.** The Governor proposes a short-term General Fund loan of \$69 million in 2006-07 to backfill the loss of federal aid from the National Forest Area Schools program for schools in rural areas of the state. This loan is paid back in full in the 2007-08 budget.

**Federal Carryover Funds for Reading First.** The Governor proposes to use **\$15.1 million** in federal Reading First carryover funds for additional schools in currently funded school districts. The Governor's proposal does not allow any of these carryover funds to be used for schools in districts that are not currently participating in the program. The Reading First program provides reading instruction to K-3 students. The Governor vetoed \$15.1 million in the 2006-07 budget, which included \$3.0 million for schools in districts that are not currently participating in Reading First program. The Governor's veto expresses the view that funding should not be provided for new schools in districts that are not currently receiving funding.

**State Operations – Restoration of State Board of Education Positions.** The Governor's budget proposes to fully restore funding for staff and operations at the State Board of Education in 2007-08. The budget adds **\$1.5 million** in General Funds (Non-98) and **\$53,000** in reimbursements to restore 9.2 staff positions and other operating expenses for the State Board. The Legislature eliminated all funding for the State Board's staff and expenses in the 2006-07 budget in response to State Board actions on English/Language Arts curriculum as it affects the availability of instructional materials for English learners.

## Issues

In assessing the Governor's education package overall, the Legislature may want to consider the following issues and questions:

1. **Limited New, Ongoing Funding for Schools Beyond COLAs.** The Governor's budget provides limited discretionary Proposition 98 funding for K-12 schools in the 2007-08 budget. Most new, ongoing funding in 2007-08 is directed to COLAs for education programs. The Governor provides discretionary increases for child care, adult English tutoring and several other smaller programs. The Governor's budget does not include funds to increase school meals reimbursements, although this is identified as one of the Governor's initiatives in 2007-08. If COLA rates increase at May Revise, additional discretionary funding will be need to be redirected from other new discretionary program proposals or a deficit factor will be created for COLAs.

2. **Student Growth in Third Year of Decline.** The Governor's budget estimates that the number of students attending school in California is declining statewide for the third year in 2007-08. The Governor's budget actually reflects negative growth for all revenue limit programs and some categorical programs in 2007-08. This decline presents many challenges to schools. It will be important to understand more about how different state programs account for student workload changes. In addition, it will be important to look at the effects of declining enrollment on school districts statewide. Current law holds school districts harmless from enrollment losses for one-year. According to the Department of Finance, the cost of this hold harmless provision is \$500 million in 2007-08.
3. **Federal Funding – Will Losses Continue?** Federal education funds for California declined in 2006-07, and until last November, were expected to decline further in 2007-08. It is unclear what affect the new leadership in Congress will have on the level of education funding to states in 2007-08. The Governor's budget basically proposes 2007-08 federal funding for K-12 education at 2006-07 levels. Federal funds will be updated at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, once it is passed by Congress and signed by the President.
4. **What Happens for Students Who Have Not Passed CAHSEE?** The graduating class of 2006 was the first group of students in California that were required to pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10<sup>th</sup> grade. The exam includes two tests – English Language Arts and mathematics. While passage rates have been increasing for students planning to graduate, significant numbers of students in the class of 2006 did not pass CAHSEE. The Governor's Budget continues **\$72.4 million** supplemental instruction funding for 11<sup>th</sup> and 12<sup>th</sup> graders who have not passed CAHSEE. However, it will be important to understand what happened to students in the class of 2006 who did not pass CAHSEE.

## Child Care Programs

**Background.** The state makes subsidized child care services available to: (1) families on public assistance and participating in work or other activities conducive to employment; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE), depending upon the family's progress in transitioning from welfare to work.

Child care services under Stage 1 are administered by DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by CDE. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid. Families receiving CalWORKs Stage 3 child care services have exhausted their two-year Stage 2 eligibility.

Child care services are available on a limited basis for families who demonstrate exceptional financial need (also known as the "working poor"), but who have not otherwise received assistance through the CalWORKs program. These services are delivered predominately through child care vouchers and child care centers. Under current practice, services to these two populations (former CalWORKs recipients and the "working poor") are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

**2007-08 Child Care Highlights.** The proposed 2007-08 budget contains a total of \$2.3 billion (both General Fund and federal funds) to provide child care services to CalWORKs recipients, former CalWORKs recipients, and the "working poor." Funding for state and federal After School programs is excluded from this total and will be discussed separately.

## Budget Issues

Unlike prior years, the Governor does not propose any major programmatic reforms to CDE-administered subsidized child care programs, he does however, propose to freeze the income eligibility limits for the subsidized child care programs at the current-year State Median Income (SMI) levels.

The Governor's proposal contains minor budgetary changes in Stage 2 and 3 CalWORKs child care, as well as General Child Care, consistent with caseload changes within those programs. The Governor does, however, call for substantial reform to the CalWORKs program (as discussed in the Social Services section of this document) which, in the out-years, may have an impact on child care caseloads. These changes will not impact child care caseloads in either Stage 2 or Stage 3 CalWORKs Child Care in the 2007-08 fiscal year.

Included in the 2007-08 proposal is a shift in the traditional mix of funding for Stage 2 Child Care services. While long-administered by CDE, this program has traditionally been funded with both federal TANF and Proposition 98 dollars. For example, in the current year, funding for Stage 2 child care totals \$425.2 million. Of that amount, \$56 million comes from Proposition 98 while \$369 million is from federal TANF funds. For the budget year, the Administration

proposes funding all but \$42.7 million of the \$447.4 million Stage 2 budget from Proposition 98 sources (including \$25.7 million from the Proposition 98 reversion account and \$13.25 million in other Proposition 98 Child Care carryover funds). While this fund shift has been described by some as "moving" Stage 2 Child Care "into" Proposition 98, staff notes that it is simply a reconfiguration of the current funding sources for a program which has already been funded with Proposition 98 dollars.

### After School Programs

**Background.** The state makes Before and After School Programs available to children statewide with funding provided by both the federal government (via the 21st Century Community Learning Centers Program) and the state General Fund.

In 2002, the voters approved Proposition 49 to increase the amount of state support available to Before and After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 went into effect in the 2006-07 fiscal year. This had the effect of requiring the state to quadruple (in a single year) the amount of funding it expends on state-funded After School Programs.

In the current year, the state is spending \$547.4 million General Fund to support After School Programs and the federal government is providing the state with \$162.6 million for a similar purpose. As a condition of Proposition 49, the State funds are continuously appropriated and are not appropriated in the annual Budget Act. Federal funds are appropriated annually in the Budget Act.

**2007-08 After School Program Highlights.** Funding for the State's After School program is proposed to remain constant at \$547.4 million, while federal support for the 21st Century Community Learning Centers Program is slated to decrease by \$33.6 million (to \$129 million), due to the absence of prior-year carry over funds which had been previously been available to supplement the program.

### Preschool Programs

The Governor generally proposes to maintain the State Preschool Program at existing levels. The program is proposed to increase by \$5 million over the revised current-year budget level of \$413.6 million. This increase is due to a \$5 million augmentation for child care/preschool "wrap around" services which seek to bridge care for children between the time a preschool program ends and child care program would begin. Funds were provided for this purpose in the current year from one-time sources and were statutorily appropriated (Chapter 211, Statutes of 2006). Additional funding is provided for caseload adjustments to account for 2,550 new children, which are expected into the state's preschool programs in 2007-08.

## 6120 California State Library

There are no budget changes proposed for the Public Library Foundation (PLF), which, under the Governor's proposal, will remain funded at \$21.4 million. While this amount represents an

increase above the \$14.4 million provided in the 2005-06 Budget Act, it is still significantly below the 2000-01 funding level for the program, which exceeded \$56.8 million. Funds from the PLF are allocated to local libraries for general support, such as retaining library hours of operation; book and material purchases; and outreach services, such as the operation of bookmobiles.

### 6360 California Commission on Teacher Credentialing

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives approximately 250,000 annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

<b>Summary of Expenditures</b>					
(dollars in thousands)					
	2005-06	2006-07	2007-08	\$ Change	% Change
General Fund	\$2,700	\$0	\$0	--	--
General Fund, Proposition 98	24,988	49,881	39,881	-\$10,000	-20.0
Teacher Credentials Fund	11,442	15,369	14,601	-768	-5.0
Test Development & Adm. Account	2,814	4,792	4,188	-604	-12.6
Reimbursements*	76	1,027	248	-779	-75.9
<b>Total</b>	<b>\$42,020</b>	<b>\$71,069</b>	<b>\$58,918</b>	<b>-\$12,151</b>	<b>-17.1</b>

**Governor's Budget:** The Governor's Budget proposes \$58.9 million for the CTC's budget in 2007-08, a decrease of \$12.2 million from the 2006-07 budget. Most of this decrease is associated with the Governor's proposal to add \$10 million in one-time General Funds (Proposition 98) for a new teacher recruitment program – EnCorps – in 2007-08. Funding for the EnCorps program would be available on a one-time basis beginning in 2007-08. However, because funds are appropriated from 2006-07 Proposition 98 settle-up funds, expenditures for this new, limited-term program are budgeted in 2006-07 and appear as a funding loss in 2007-08.

In addition, the budget proposes a net reduction of \$1.4 million in expenditures from the two special funds that support the CTC's state operations -- the Teacher Credentials Fund and million

from the Test Development and Administration Account. This reduction reflects a \$1.5 million decrease in pro-rata charges assessed to the CTC and a \$100,000 increase for other baseline budget adjustments. In total, the Governor's Budget proposes to expend \$18.8 million from CTC's two special funds in 2007-08.

The Governor's budget provides \$39.9 million from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. This amount continues the \$6.8 million increase provided in the 2006-07 budget to improve and expand intern grants to school districts and county offices of education, pursuant to Chapter 517 (SB 1209/Scott).

The 2005-06 budget provided a \$2.7 million General Fund (Non-Proposition 98) appropriation to address a shortfall in special funds to support the CTC's state operations budget. These funds were provided on a one-time basis. Healthy fund balances were restored in 2006-07 and expenditures from the Teacher Credentials Fund and the Test Development and Administration Account were increased by \$2.7 million to offset the elimination of one-time General Funds.

### ***Highlights***

**Healthy Fund Balances Estimated.** The Governor budget projects positive, healthy fund balances for CTC's two special funds in 2007-08. The budget estimates that the fund balance for the Teacher Credentials Fund will total nearly \$4 million in 2007-08, assuming two percent growth from 2006-07. Growth rate estimates will be updated at May Revise. Based upon the latest estimates from CTC, it is likely that the estimated growth rate and projected fund balances for the Teacher Credentials Fund will increase at that time. The budget also estimates that the fund balance for the Test Development and Administration Account will total \$1 million in 2007-08.

**Reduction in Pro-Rata Charges to CTC.** The Governor's Budget reflects changes in CTC's portion of the state administration, General Fund recovery adjustment, known as state agency pro-rata charges. This change, which is being applied to agencies statewide, reduces expenses for CTC by \$1.5 million in 2007-08.

**Create One-Time Teacher Recruitment Program.** The Governor proposes to provide \$10 million in one-time Proposition 98 funds to create the EnCorps Teacher program in 2007-08. This program is intended to add 2,000 experienced retirees to the teaching corps, particularly retirees with subject matter knowledge in several shortage fields -- math, science and career-technical education. The program is proposed as a public-private partnership between local education agencies and private business and industry. Once recruited by the EnCorps program, retirees would be prepared for teaching through existing internship programs with unspecified support from their current employers. Funding for this program would be available for a two-year period commencing in 2007-08.

**Continue Efforts/Progress in Reducing Credential Processing Time.** The Governor proposes to continue position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division for this purpose. The Governor proposes to continue this authority for one additional year – until June 30, 2008. The Governor notes that while “significant” progress has been made in 2006-07, it is “critical” that efforts continue until the backlog is eliminated and processing time is below the 75-day standard.<sup>1</sup> The Governor also proposes to continue language requiring the CTC to submit quarterly reports to the Legislature, Legislative Analyst’s Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

**Career-Technical Education Credentialing Reforms.** The Governor proposes to introduce legislation directing the CTC to streamline the credentialing process for career-technical education teachers. These efforts are intended to address 175 different credentials for career technical education teachers reflecting industries and trades in California. The Governor proposes that by September 30, 2007, the CTC establish a more streamlined list of credentials utilizing the 15 industry sectors included in California’s new curriculum standards for career-technical education.

**Continue Support for Teacher Data System Development.** The Governor’s budget provides \$1.4 million in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CalTIDES) in 2007-08. Of this total, the Governor provides \$248,000 for 2.5 limited-term positions and other expenses to CTC and \$1.2 million for one limited-term position and other expenses to the California Department of Education (CDE) for development of CalTIDES. The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for this purpose -- \$252,000 for CTC and \$686,000 for CDE.

**Continue Support for the Teacher Performance Assessment.** The Governor’s Budget provides \$237,000 for 2.0 positions and other expenses to support administration of the Teacher Performance Assessment pursuant to Chapter 517, Statutes of 2006 (SB 1209/Scott).

---

<sup>1</sup> The Governor’s Budget summary indicates that during 2006-07 the “credentialing backlog” has been reduced from 77,000 to 44,000 applications and reduced average processing time below the regulatory time limit of 75 days for both credential renewals and university recommended credentials for new teachers. According to CTC, the credentialing backlog has been further reduced to 31,000 applications.

# HIGHER EDUCATION

**Overview of Governor's Compact with Higher Education.** In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) that calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2007-08 Budget proposal provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, the Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from **2007-08** to 2010-11), the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,350 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

**Undergraduate Fees.** In an effort to better stabilize fees after the sharp increases of the past couple of years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent.

**Teacher Credentialing Fees.** Fees will increase by no more than 10 percent annually.

**Academic Graduate Student Fees.** Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors, including, the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

**UC Professional School Fees.** UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs.

**Student Fee Revenues.** UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase in fee revenues with a corresponding General Fund reduction, as the state has done in the past).

- **Accountability Measures.** In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

**Student Eligibility.** Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

**Community College Transfer Students.** Both UC and CSU will continue to accept all qualified community college transfer students.

**Community College Course Transfer.** Both UC and CSU will increase the number of course articulation agreements, as they relate to academic "majors," with community colleges. In 2005, UC agreed to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU agreed to establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

**Summer Term/Off-Campus Enrollment Levels.** By 2010-11, both UC and CSU will expand student enrollments in summer session and through off-campus offerings to a level equivalent to 40 percent of regular-term enrollments.

**Academic Outreach Efforts.** UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.

**A through G Course Offerings.** Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

**Public Service.** UC and CSU agree to strengthen student community service programs.

**Time to Degree.** Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduation rates, and time-to-degree.

**Teacher Candidates.** Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

## **OVERARCHING HIGHER EDUCATION ISSUES**

**Student Enrollment Growth (UC and CSU).** Pursuant to the Governor's compact with UC and CSU, the Administration proposes to fund enrollment growth equivalent to 2.5 percent, which is consistent with the enrollment projections at the UC and CSU. For UC, this equates to an increase of approximately 5,000 FTES and \$54.4 million; for CSU, enrollments are proposed to increase by approximately 8,355 FTES and \$35.5 million.

Imbedded in the Governor's enrollment growth proposal is a substantial change in the methodology used by the state to calculate the per student "marginal cost of instruction," which is the rate of funding provided by the state for each new student. Specifically, the rate used by the Department of Finance in the Governor's 2007-08 proposal is derived from a methodology that was rejected by the Legislature during the current year budget negotiations.

In 2005, the Legislature requested that the Department of Finance and the Legislative Analyst convene a workgroup to examine possible changes to the marginal cost methodology in order to better capture the costs of educating students at UC and CSU. This request was spurred by a growing sense, both within the higher education segments and among legislators and staff that the per-student rate had not kept pace with actual costs incurred by the institutions in educating students.

### ***Budget Issues***

While enrollment growth of 2.5 percent appears reasonable at this point in time, the Legislature will want to continue examining enrollment growth trends to ensure that funds allocated for this purpose are indeed needed. Further, it remains unclear if the "marginal cost" methodology employed by the Department of Finance in constructing the Governor's Budget is the methodology that will accomplish the Legislature's funding objectives.

**Student Enrollment Growth (Community Colleges).** While the California Community Colleges do not have a "compact" with the Governor, he does provide \$238.2 million to fund enrollment growth of two percent throughout the community college system. These funds will allow colleges statewide to grow by an additional 23,000 FTES.

Until recently, statute dictated that community colleges were required to receive a minimum level of growth funding equivalent to the level of statutory growth provided to the K-12 system. However, legislation enacted in 2006 (Chapter 631, Statutes of 2006) establishes an alternative growth formula for community colleges which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. Based on that computation, the minimally funded growth rate for community colleges would be 1.65 percent. Funds provided in the Governor's budget exceed this amount.

### ***Budget Issues***

While the Legislature remains supportive of expanding access to higher education, it wants to neither over-appropriate funds for enrollment growth (since those funds will simply revert to the Proposition 98 Reversion Account), nor under-appropriate, thereby limiting student access. Given the current-year reduction in community college fees (from \$26 per unit to \$20 per unit), the Legislature will want to remain attentive to the student enrollment trends at colleges during the Spring 2007 term to determine if the two percent enrollment growth proposed by the Governor is indeed an appropriate funding level for the 2007-08 fiscal year.

**General Campus Support.** Consistent with the Governor's compact, his 2007-08 budget provides a General Fund, general support increase of four percent for both UC and CSU (including a four percent increase for the Legislative, Executive, and Judicial Fellows programs)

totaling \$225.5 million (\$116.7 million to UC and \$108.8 million to CSU). These funds will be used to cover cost-of-living-adjustments (COLA), salary, and other mandatory cost increases.

Under the Governor's proposal, the community colleges also receive a statutory COLA of 4.04 percent which equates to \$224.9 million.

**Student Fees.** In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee principles into his "compact" with UC and CSU. In 2006-07, instead of furthering his policy, the Governor chose to "buy out" the previously agreed-upon fee increases for all UC and CSU students by providing both segments with state General Fund dollars (totaling \$129.4 million) to replace the amount of student fee revenue that will be lost due to retaining fees at their current-year levels.

For 2007-08, the Governor reverts to his previously-agreed up compact and increases fees at both UC and CSU. Instead of initially proposing specific fee increases in November of 2006 as is traditional, the UC and CSU instead proposed system budgets that contained revenue and resource assumptions – stating that those revenues could come either from the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase.

For UC, the Board of Regents budget states a need for approximately \$70 million from either state funds or a fee increase. This equates to revenues equaling a seven percent fee increase (after approximately \$36 million is returned to student financial aid) for most students, although some professional school students will see fee increases of closer to ten percent. At the CSU, the concept is the same although the calculations are slightly different. The CSU Board of Trustees budget proposal states a need for approximately \$65 million in revenues, which could be derived from either the state General Fund or increased student fees. In the case of CSU, this equates to a ten percent increase in student fees (after approximately \$32 million is returned to financial aid). In both cases, the Governor opted to increase fees rather than buying out the fee increases.

The Governor is proposing that fees at the community colleges -- which were reduced from \$26 to \$20 per unit in the current year -- remain constant.

**Student Academic Preparation Programs.** The Governor's Budget again fails to provide any state support (General Fund) for either UC or CSU's Student Academic Preparation or Early Assessment Programs. This equates to a loss of \$26.3 million for these programs (\$19.3 million for UC and \$7 million for CSU). As part of the 2005-06 budget process, the UC convened a bipartisan working group of university, legislative, and Administration representatives to address the Administration's concerns with the various Academic Preparation programs. In light of the efforts undertaken by the Legislature and the higher education segments to resolve any outstanding issues, it remains unclear why the Administration continues proposing the elimination of state funding for these programs.

## 6440 University of California

**Background.** The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of ten campuses -- Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. UC Merced, which is located in the Central Valley, is the newest of the UC campuses and recently opened to students in the Fall of 2005. The University of California, San Francisco, is solely dedicated to the health sciences. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses, as well as operating the Sacramento, San Diego and Orange county medical facilities.

### Summary of UC Expenditures

(dollars in thousands)

	2005-06	2006-07	(Proposed) 2007-08	\$ Change	% Change
<b>General Fund</b>	<b>\$2,838,567</b>	<b>\$3,077,984</b>	<b>\$3,270,067</b>	<b>\$192,083</b>	<b>6.2%</b>
Public Transportation Account	980	980	980	--	--
Cigarette and Tobacco Products --					
Research Account	14,253	14,253	14,253	--	--
Earthquake Risk Reduction Fund of			1,000		
1996	1,000	1,000		--	--
Oil Spill Response Fund	1,300	1,300	1,300	--	--
California State Lottery Educ. Fund	30,939	31,370	31,370	--	--
Federal Trust Fund	3,500	3,500	3,500	--	--
Federal Funds (not in state treasury)	16,550	17,000	17,000	--	--
Breast Cancer Research Fund	633	473	778	305	64.5
<b>Higher Education Fees and Income</b>	<b>1,942,902</b>	<b>1,998,040</b>	<b>2,150,998</b>	<b>152,958</b>	<b>7.7</b>
UC Funds	6,478,671	6,871,137	7,196,020	324,883	4.7
Reimbursements	2,516	1,496	4,820	3,324	222.2
Health Care Benefits Fund	1,725	235	1,997	1,762	749.8
UC Federal Funds	6,399,721	4,400,963	4,479,708	78,745	1.8
UC Nonfederal Unclassified Funds	1,872,295	1,895,983	1,972,479	76,496	4.0
<b>Total Expenditures, All Funds</b>					
Total	\$19,618,355	\$18,328,790	\$19,159,346	\$830,556	4.5%

**UC Merced.** The new UC Merced campus opened to 865 FTES in the 2005-06 academic year, falling short of its goal of reaching 1,000 FTES by the end of the 2005-06 academic year. In the current year, the campus expects enrollments of approximately 1,350 FTES, again, falling short of its original goal of 1,800 FTES. The campus expects to grow by 800 students annually through the 2010-11 academic year, for a total enrollment of 5,000 FTES. With these new students, the campus will now receive enrollment funding totaling \$21.8 million in 2007-08; however, given that the Merced campus has not yet been able to achieve any "economies of scale" the campus still requires an additional appropriation from the state. For 2007-08, the Governor proposes to continue providing a total of \$24 million for the start-up costs associated with the Merced campus; of this amount, \$14 million is one-time. These funds are used primarily to hire a core staff of administrators and faculty, continue developing curriculum, and recruit faculty.

**Employer Retirement Contributions.** The UC Budget Proposal requested \$60 million in state funds to cover UC's employer costs of reinstating employer/employee contributions to its University of California Retirement Program (UCRP). This proposal was denied by the Administration and thus no funding was included in the Governor's January proposal.

**Research.** The Governor's Budget includes \$20 million General Fund, above the funding levels agreed to in his *compact*, to support two research initiatives at the UC. Of this amount, \$15 million is for the Institutes for Science and Innovation, bringing total state support to approximately \$19.8 million. While the infrastructure needs of the Institutes have, for the most part, been met, the funds will be used to support the core research functions. Funds will further be used to attract additional resources from industry and other governmental sources. The remaining \$5 million is to enhance UC's bid to win a National competition to build and operate a new petascale computing facility, which would become operational in 2011. The winner of the competition will build the world's fastest supercomputer and lead the next generation of National Science Foundation computer architectures and applications.

Offsetting the research funding increases discussed above, is the elimination of all state funding (\$6 million) for research activities related to Labor Studies.

**Student Fees.** As discussed earlier, the Governor proposes to increase student fees by seven percent to \$7,347 for Undergraduate students and \$9,481 for Graduate students. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to increase by a like amount.

Fees for undergraduate students at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$8,354 in **2006-07**, which is \$1,007 higher than the **2007-08** proposed fee levels for UC resident undergraduates. Fees for graduate students at UC continue to be approximately \$1,800 below those charged at its comparison institutions.

University of California Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,852	25,486	8,938	23,889
2007-08	7,347	27,027	9,481	24,466

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an *average* of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,300 for students in public health, public policy, or international relations to \$19,000 for students in business/management and \$18,000 for students in law.

**Capital Outlay.** The capital outlay portion of UC's budget includes \$613.7 million for 28 new projects, as well as the continuation of existing projects. Of this amount, \$503.2 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund and \$70 million would be financed through lease-revenue bonds; \$40.5 million in projects is being financed with UC funds. Following is a description of the most notable projects included in the Governor's proposal:

Telemedicine/Programs in Medical Education (PRIME) Facilities. UC proposes to continue efforts by its medical schools to address state objectives for (1) improved access to clinical services, (2) expansion of a systemwide network for telemedicine services, and (3) an increase in the number of doctors to meet California's needs. This project would provide specialized medical education and telemedicine facilities to train physicians to serve in medically-underserved areas and to provide specialist care and health education not readily available in

those communities. Governor's budget proposes \$227.7 million from a combination of GO Bond Funds (approximately \$200 million) and UC funds (approximately \$28 million) for all capital outlay phases (planning, working drawings, construction, and equipment).

Helios Research Facility. UC is proposing to construct a new research facility to be located at the Lawrence Berkeley National Laboratory. The Helios Research facility – which the Governor proposes to finance using \$30 million of lease-revenue bonds – would focus on the development of renewable and sustainable forms of energy drawn from sunlight. Ultimately, research would strive to use sunlight to manufacture transportation fuel, improve the conventional biomass conversion process, and convert sunlight to fuel. Funds are proposed for planning, working drawings, and construction.

Energy Biosciences Institute Facility. The Governor's Budget provides \$40 million in lease revenue bonds contingent upon UC winning a competition for the BP Corporation's Energy Biosciences Institute grant. The Institute's work is proposed to coordinate closely with that of the Helios Research Facility in that it will focus on converting biomass materials into fuels, converting fossil fuels to energy with less environmental damage, and maximizing oil extraction from existing wells in environmentally sensitive ways.

## 6600 Hastings College of the Law

**Background.** Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of the Law.

**2007-08 Budget Changes.** While not explicitly included in the Governor's *compact* with higher education, the Administration has consistently opted to afford the provisions of the compact to Hastings College of the Law. Specifically, the budget provides Hastings with a four percent General Fund increase (\$406,000) for basic budget support. The effect of this increase will help mitigate some of the reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund growth.

**Student Fees.** After large fee increases of approximately 34 percent in the 2004-05 year, fee levels at Hastings remained relatively constant in 2005-06 with an increase of approximately \$2,000 for residents (\$22,297 total in the current year). Like UC and CSU, the Governor and the Legislature "bought out" proposed fee increases of eight percent in the current year.

For 2007-08, fees at Hastings are proposed to increase by eight percent, resulting in an additional \$2 million in revenue available to Hastings. Fees for resident students will be \$23,768 while fees for nonresident students will rise to \$34,993.

## 6610 California State University

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate and graduate level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic “general education” breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate and masters level instruction, the CSU trains approximately 60 percent of California’s K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral level education with the University of California and private and independent institutions.

### Summary of CSU Expenditures

(dollars in thousands)

	2005-06	2006-07	(Proposed) 2007-08	\$ Change	% Change
<b>General Fund</b>	<b>\$2,596,000</b>	<b>\$2,811,384</b>	<b>\$2,976,335</b>	<b>\$164,951</b>	<b>5.9%</b>
<b>Higher Education Fees and Income</b>					
(reclassified as CSU Trust Fund – please see below)	<b>1,230,748</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>CSU Trust Fund</b>	<b>--</b>	<b>1,243,433</b>	<b>1,366,398</b>	<b>122,965</b>	<b>9.9</b>
State University Continuing Ed. Revenue Fund	135,561	133,328	133,328	--	--
CSU Dormitory Revenue Fund	221,315	200,965	200,965	--	--
CSU Parking Revenue Fund	32,002	36,724	36,724	--	--
California State Lottery Educ. Fund	45,784	68,372	51,084	-17,288	-25.3
Federal Trust Fund	36,919	39,500	39,500	--	--
Federal Funds (not in state treasury)	353,693	354,000	354,000	--	--
Other Unclassified CSU Funds	1,303,303	1,305,709	1,305,709	--	--
Reimbursements	201,939	183,262	1,862	-181,400	-99.0
2004 GO Bond Fund	26,000	--	--	--	--
2006 GO Bond Fund	--	50,000	50,000	--	--
CSU Auxiliary Organizations	283,787	260,013	260,013	--	--
<b>Total Expenditures, All Funds</b>					
Total	\$6,467,051	\$6,686,690	\$6,775,918	\$89,228	1.3%

**Other 2007-08 Budget Changes.** In addition to the budget changes discussed earlier in this document, the Governor proposes to provide an additional \$2.0 million in funding (for a total of \$2.7 million) for his new Math and Science Teacher Initiative in order to encourage CSU to double the number of teachers it trains in these particular teaching disciplines.

No new funding is contained in the Governor's proposal for CSU to provide nursing-related education; however, the Governor's proposal *does* require the CSU to direct a portion of its general campus enrollment growth dollars toward growing its nursing programs by 340 FTES.

**Student Fees.** As discussed earlier, the Governor proposes to increase student fees by ten percent to \$3,451 for Undergraduate students and \$4,093 for Graduate students. Nonresident tuition for out-of-state students is proposed to remain constant at \$10,170 (above the amount paid by resident students).

Fees for undergraduate students at CSU's comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$6,655 in **2006-07**, which is \$3,204 more than the amount proposed for CSU resident undergraduates in **2007-08**. For graduate students, fee levels at CSU continue to be significantly lower than at its comparison institutions, by over \$4,700 annually.

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,199	13,334	3,781	13,951
2007-08	3,451	13,334	4,093	14,263

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

**Capital Outlay.** The capital outlay portion of CSU's budget includes \$650.4 million in funding (from all sources) to start 26 new projects and continue existing projects. Of this amount, \$380.4 million is derived from the 2006 Higher Education Capital Outlay Bond Fund; \$1.8 million comes from funds remaining from the 2004 Higher Education GO Bond; \$20 million is from the

1998 Higher Education GO Bond Fund; \$247.7 million are university funds; and \$500,000 are reimbursed from other sources.

## 6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that: (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

### 2007-08 Proposed Adjustments

**Enrollment Growth.** The Governor's 2007-08 budget proposes to provide \$109.1 million to fund a two percent (or 23,000 FTE) increase in student enrollment. This exceeds the growth level (1.65 percent) derived by the formula proposed in Senate Bill 361 (Chapter 631, Statutes of 2006), which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. The total number of students enrolled in community colleges statewide is expected to surpass 1.1 million FTES.

**Cost-of-Living-Adjustment.** In addition to providing enrollment growth, the Administration proposes an additional \$224.9 million for a 4.04 percent COLA for general campus apportionments. An additional \$19.6 million is provided for Categorical program COLA and enrollment growth.

**Redirection of Unused Basic Skills "Overcap" Funding.** Prior Budget Acts have provided funding, in excess of enrollment growth dollars otherwise provided in the budget, specifically to fund students enrolled in Basic Skills courses where the college is otherwise over their enrollment growth "cap" or allocation. This funding stream is commonly known as Basic Skills "overcap" funding. In the current year, the Budget Act provided \$33.1 million for this purpose and in 2005-06 \$30.7 million was provided for this purpose. In each of these fiscal years, the amount of funding appropriated in the Budget Act was not necessary to fulfill the need for which it was appropriated. Rather than retaining the funding within the Basic Skills program for another purpose, the Governor proposes to redirect \$33.1 million in 2007-08 from Basic Skills "overcap" to the Matriculation Program. Of that amount, the Governor targets \$19.1 million specifically for counseling and tutoring services for students determined to be most in "need for those services, with a priority placed on assisting first time students transitions from high school to community college."

**Nursing.** The Governor proposes to increase funding for nursing at the community colleges by \$9 million (one-time) and \$9 million (ongoing). The one-time funds (Proposition 98 settle-up funds to be appropriated in the Education Budget Trailer Bill) are for the community colleges to start up five new nursing programs (\$5 million) and create four new regional nursing simulation laboratories (\$4 million). Of the \$9 million in ongoing funds, \$5.2 million is scheduled to augment the community colleges attrition-reduction programs for nursing students and \$3.8

million will be used to provide incentive funding for districts to offer additional prerequisite courses in anatomy, physiology, and microbiology.

**CalPASS.** The Governor provides an additional \$1 million (from Proposition 98 settle-up funds) to support the CalPASS program, which eases student transition among K-12, the community colleges, and the four-year higher education institutions.

**FCMAT.** Governor's proposal includes \$350,000 to increase the involvement of the Fiscal Crisis Management Assistance Team (FCMAT) in the community colleges.

**Student Fees.** No changes are proposed. Fee levels remain at the recently-reduced level of \$20 per unit. At \$26 per unit, approximately 43 percent of community college students were eligible for Board of Governor (BOG) Student Fee Waivers. Without data available from the recent academic term (when student fees were reduced to the \$20 level), the Administration continues to budget under the assumption that the same percentage of community college students will remain eligible for BOG waivers in 2007-08.

**Proposition 98 "Split."** General Fund Proposition 98 support for community colleges is proposed to increase by 6.4 percent over the current year, thereby increasing the community college's "share" of Proposition 98 from the current-year (Budget Act) level of 10.74 percent to 11.06 percent in 2007-08. This level exceeds the statutory "split" of Proposition 98 resources between K-12 and community colleges as outlined in state law, and is due primarily to a \$627 million shift of K-12 Home-to-School Transportation Program dollars out of the K-12 budget to the Public Transportation Account, which dramatically increases the community college's share of a now smaller Proposition 98 appropriation.

In total, community colleges would receive \$6.3 billion (from all funding sources) under the Governor's proposal, which represents an increase of approximately \$380 million.

**Capital Outlay.** The capital outlay portion of the Community Colleges budget includes \$1.1 billion in funding (from all sources) to start 60 new projects and continue existing projects. Of this amount, \$894 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund; \$149.8 million is remaining from the 2004 Higher Education GO Bond; \$13.4 million is comes from the 2002 Higher Education GO Bond; and \$24.6 million is left from the 1998 Higher Education GO Bond.

## 7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC, administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population,

and provides financial aid information to students, parents, and California's education community.

**Background.** In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which in the budget year, will be approximately \$73,200 for a family of four or \$84,600 for a family of six or more. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$38,500 for a family of four. In addition, community college students who meet specified GPA and income requirements and transfer to a four-year college or university prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a block of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 197,425 in the 2007-08 fiscal year.

**2007-08 Budget Changes.** As part of his 2007-08 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception of covering the increased mandatory fee levels proposed for the UC and CSU systems (as discussed previously in this section).

#### **Other Budget Adjustments.**

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including: (1) an additional \$2.9 million to fund the increase in loan assumptions coming due; (2) the authorization of 8,000 APLE warrants annually with an earmark of 600 awards to be set-aside for students participating in the Governor's Math and Science Teacher Initiative at UC and CSU (a proposal which has been rejected by the Legislature for several years in a row); (3) the repayment of National Guard APLE warrants authorized in the current year Budget Act; and (4) the extension of the sunset date for the National Guard APLE program (through the budget trailer bill).

**6445 California Institute for Regenerative Medicine (CIRM)**

Established pursuant to Proposition 71 as passed by the voters in 2004, the California Institute for Regenerative Medicine (CIRM) will administer the issuance of \$3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

For 2007-08, the CIRM proposes to expend \$832.3 million of continuously-appropriated bond proceeds (*Health and Safety Code*, Section 125291.20) derived from Proposition 71. Staffing for the Institute is proposed to increase to 50 positions, totaling \$6.5 million. Included in the current year is the repayment of a \$153 million General Fund loan provided to CIRM for start-up costs as part of the current-year Budget (*Health and Safety Code*, Section 125290.70).